VyStar Credit Union

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March 20, 2015

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: VyStar Credit Union's Comments on NCUA's Proposed Rule for:
12 CFR Parts 700, 701, 702, 703, 713 and 747 RIN 3133-AD77 Proposed
Rule for Prompt Corrective Action – Risked-Based Capital – Revised 2015

Dear Ms. Rupp:

Thank you for providing us an opportunity to respond to NCUA's Proposed Rule referenced above. On behalf of the Board of Directors and Senior Management of VyStar Credit Union, headquartered in Jacksonville, Florida, we offer the following comments, perspectives and suggestions.

General Comments:
We still do not think a risk based capital rule for credit unions is necessary and if NCUA is focused on identifying the outlier credit unions that propose a risk to the credit union industry, we encourage NCUA to address those credit unions specifically rather than impact the entire industry. Having expressed that, we do think that, in general, the framework of the revised proposed rule is an improvement over both the previous proposed rule and the existing risk-based net worth requirements. The proposed framework is much easier to understand and it now relates more closely to the overall net worth ratio of a credit union by implying the difference between the capital measures is a quasi-economic cushion.

The revised proposal more directly addresses credit, contingency and concentration risk and eliminates interest rate risk. The changes made to investments in the revised proposed rule seem much more appropriate. The modifications to off-balance sheet loans sold with recourse and unfunded commitments also seem more appropriate. The reliance on Generally Accepted Accounting Principles (GAAP) in many areas also seems more appropriate and will simplify implementation as GAAP changes in the future.

Changing the definition of complex credit union, to which the revised proposed rule would apply from $50 million to $100 million, is a step in the right direction. However, this still needs more discussion. During much of the discussion regarding why NCUA believes a Risk Based Capital Rule should be created, representatives of NCUA have often made comments that credit unions need a rule that is comparable to what is required of the banking industry. If so, the banking industry has a much higher cap for a bank to be considered complex. We encourage NCUA to reconsider the definition of complex credit union and raise the level to something higher, perhaps $500 million. In addition, the treatment of mortgage servicing rights still appears to be punitive. We encourage NCUA to revisit mortgage servicing rights and reconsider the weightings; while risk exists, the current weightings seem overly high.

The revised framework appears to be very similar and aligns more to the risk-based capital Notice of Proposed Rulemaking (NPR) for community banks brought forth by the Federal Deposit Insurance Corporation (FDIC), but with many clear advantages outlined specifically for credit unions, which acknowledges less risk exists in their operations.

The revised proposal asked for comments on five specific points. Our comments are as follows:

Section 702.2—Definitions: **Specific Comments on Definitions:**
Definitions are proposed for various categories and parts of the risk-based capital calculation.

The revisions to the definitions, particularly those that now rely on GAAP definitions, seem fair and reasonable. The changes to the definitions have all been for the better and they are much clearer, particularly regarding the current and non-current loans. The expansion of non-current loans to be those that are 90 days past due is also an improvement and more closely aligns with operations of a financial institution.

While we recognize that NCUA's intention has been to improve how credit unions apply risk to restructured loans, the definition of a restructured loan and the accompanying footnote are troublesome. The footnote relates to Financial Accounting Standards Board (FASB) ASC 310-40, "Troubled Debt Restructuring by Creditors." This footnote recaps the point that under the revised proposed rule, a restructured loan is what FASB calls a Troubled Debt Restructuring (TDR). To make this even more confusing, the revised proposed rule specifically excludes "A loan extended or renewed at a stated interest rate equal to the current market interest rate for new debt with similar risk is not a restructured loan." According to FASB and TDR verbiage, this would be a restructured loan for accounting purposes. We suggest that the terminology of TDR and restructured loans and their definitions follow FASB. This will help to avoid confusion. The current definitions, as included in the proposal might cause confusion.

Section 702.103 – Complex Credit Union: Specific comments on Alternative Measurement for the Definition of Complex Institution:

The use of an asset threshold to define a complex credit union at first glance does not seem reasonable. It would seem that the type and mix of lending activity and other activities a credit union undertakes might be a better measure of complex. However, identifying specific types of lending activity that would make an institution complex can also mask undue concentration risk. For example, if a credit union's loan portfolio includes primarily consumer and mortgages plus business loans, this may be less risky and better diversified than a similar size credit union with a loan portfolio primarily comprised of consumer loans. The latter credit union may be subject to excessive concentration risk from which the other credit union is more insulated. This is the basic foundation of finance, diversification of risk across and within portfolios.

It would seem more reasonable to raise the asset level for defining a complex institution to $500 million or $1 billion in assets. This also would be more in alignment with the banking industry if some level of similarity is NCUA's intent. The presence of more complex lending products should not necessarily define a complex credit union. Financial institutions in general become more complex with size and by moving into more complex/sophisticated financial transactions such as mortgage backed securities, derivatives, loan sales or purchases, mortgage pipelines and servicing assets. These types of financial transactions are not ordinary in smaller asset size institutions because they generally require more scale and overhead of a larger institution to manage and understand. Raising the asset size for a credit union to be defined as complex to the $500 million or $1 billion in assets level would also more likely help zero in on the "outliers" that pose the true risk to the credit union industry. At the same time, that approach would provide some regulatory relief to most of the credit unions in the nation.

A lower threshold of perhaps $100 million might be appropriate for a bank because they would be more inclined to engage in complex financial transactions because they are more incented by shareholders to take on risk to maximize return. It would seem that while banks might be inclined to take on more risk to maximize return to their shareholders, credit unions in general would be less inclined to do so; thus, credit unions will most likely have less risk until they are larger and become more complex for the reasons noted above. Accordingly, we recommend revisiting the cap to be defined as complex and raising it to a level higher than $100 million. Banks would also be more willing and able to have the staff and training to handle these types of transactions despite their size. However, with a credit union, it would take a scale of $500 million or more in assets to support carrying out these complex financial transactions.

Therefore, those credit unions with assets above $500 million, who are either not diversified or that carry out complex transactions, should be subject to the proposed risk-based capital rule. Credit unions less than $500 million in assets should be exempt from the rule.

Specific Comments on Risk-Weight Categories
The revised proposed rule for risk-based capital has significantly improved the various risk-weightings and most of these risk-weightings seem appropriate. However, the following points are of concern with the proposed risk weights:

Risk-Weighting of Corporate Debt
In general, the revised risk-weights for investments are reasonable, including the zero risk weighting for investments issued by the U.S. Government or NCUA and the FDIC. Even the 20% weight for government sponsored entities (GSE) seems reasonable given that these are quasi-government entities. It is interesting that the risk-weights for bonds issued by state or political subdivisions (municipal bonds) differ by perceived credit risk, with a lower weight given to general obligation bonds at 20%, revenue bonds receiving a 50% weight and industrial bonds receiving a 100% weight. Clearly, the perceived risks of each different obligation influenced the weighting. Yet, corporate debentures and commercial paper all received 100% risk-weight. It would be more reasonable to structure risk-weights for corporate debt in general into tiers similar to that of municipal bonds. The current structure would make it costly to diversify and gain yield because the risk-weighting would negate the added yield of these bonds. In order to preserve a credit union's ability to diversify and avoid concentration risk in agency or government bonds, more reasonable risk-weightings should be applied to different forms of corporate debt.

One option would be to create a four-tiered risk classification that would include investment grade and non-investment grade bonds. The current definition is mute on whether bonds can be non-investment grade. The investment grades could be broken down into high, medium and low investment grade plus non-investment grade for four tiers. The high grade would be equivalent to an AAA rating, the medium grade would be equivalent to an A rating, the low grade would be equivalent to a BBB rating and the non-investment grade would be non-investment grade. These ratings would be part of the credit union's internal ratings system for bonds. This would allow for lower risk-weights for high grade bonds at 50%, medium grade bonds at 75% and low grade bonds at 100%. This approach would parallel the rates for municipal bonds.

Adopting an investment grade system with progressively higher risk-weights would allow credit unions to diversify investment risk while not punishing diversification with high risk-weights. This would also be consistent with the spirit and intent of risk-based capital to apply different risk-weights for different levels of risk.

In addition, it was noted that the risk-weightings for investments are mute on weights for deposits in banks or credit unions. It would seem that these should have some level of risk-weighting, at least for any uninsured amounts on deposit at banks and credit unions, because they can be a part of a smaller credit union's investment portfolio.

Lastly, the 300% risk-weight for publically traded equity investment (non-CUSO) seems excessive and will prevent credit unions from engaging in employee benefit funding. The employee benefit program would allow a credit union to set up an investment fund to cover the cost or fund the anticipated increase in employee benefits such as health insurance. With health care costs rising steadily each year, many credit unions are looking for ways to help cover these costs so that they can continue offering competitive employee health insurance benefits as well as other benefits. Placing such a high risk-weight on equity investments would likely dissuade credit unions from either continuing or starting these types of plans that can help cover some of their benefits costs. Long term, this could impact credit unions' ability to offer competitive employer funded employee health insurance benefits. In turn, that could make it hard to attract and retain high caliber employees.

Risk-Weighting of Non-Current and Restructured Loans

The revised proposed risk-weights for non-current and restructured loans seem excessive. While it is understandable to require a higher risk-weighting for non-current loans, lumping restructured loans into this same category and treatment is punitive. The revised proposal's definition of restructured loans specifically addresses loans that are troubled debt relief assets (TDR)s, which are loans that have been modified because of financial hardship in the face of some type of credit impairment. The Financial Accounting Standards Board (FASB) already requires excess reserves be held for these assets based on the difference between the net present value of the loans under the original terms versus the modified terms. While this is very controversial, credit unions currently hold reserves of over 10% against loans that are performing and have very low incidents of future default. Treating them as a non-current loan would not reflect the fact that a modification has been made to a loan and it is performing. This type of restructuring would actually aid its future performance not hinder it.

Risk-Weighting of Mortgage Servicing Assets

The revised proposed risk-weight for mortgage servicing assets requires 250% risk-weighting, which seems excessive and counter intuitive to credit unions that are trying to manage interest rate risk while retaining service to members. From what we have learned when talking with credit unions, most take a very conservative approach to valuation, and their mortgage servicing assets are typically not large relative to the balance sheet and not very volatile. While this type of risk-weighting might make sense for large banks that have opted into fair market value for mortgage servicing rights, credit unions do not have an asset with this same type of volatility and risk. Therefore, while the asset is relatively small it should not require a 250% risk-weighting. We encourage NCUA to reconsider this particular risk weighing and to lower it to a more reasonable level.

Retaining mortgage servicing rights is fundamental to the mission of credit unions as a financial cooperative that is serving the financial needs of their members. Most credit unions that are selling mortgages are selling long term 20 and 30 year mortgages that contain a great deal of interest rate risk. These credit unions are trying to prudently manage their balance sheet rate risk while continuing to serve their members. Some financial institutions sell mortgages with servicing released and these servicing rights become a valuable but volatile asset. Credit unions generally retain servicing and thus accumulate a mortgage servicing asset not for financial gain but to provide members with high quality service and the safety of knowing that their loans, while they may be sold, are still serviced by the credit unions that they trust. A 250% risk-weighting would be punitive treatment of a credit union that is acting prudently both to the institution and to the membership by selling an asset and retaining servicing. Such a high risk weighting could cause more credit unions to sell mortgage loans service released; that would reduce the quality of service their members receive.

Conclusion:

The proposed rule has many elements that appear to be reasonable especially compared to NCUA's initial risk-based capital proposal and compared to the risk-based capital proposal for community banks. Most loans are treated more favorably in NCUA's more recent risk-based capital proposal than they are as outlined for community banks. A number of areas are very similar to those required for community banks including the harsh treatment of mortgage servicing rights. This letter has outlined these issues and it has provided recommendations for further changes and/or clarification on these different points.

Again, thank you for providing credit unions an opportunity to comment on this Proposed Rule. As commented earlier, we ask that NCUA reconsider the need for this proposed rule; however, if one is issued, this new proposal, excluding the few areas where additional changes are recommended is a considerable improvement over the initial rule that was proposed. If you have any questions about our comments, please contact our President/CEO, Terry West at 904-908-2500.

Sincerely,

George Berry

George Berry
Chairman of the Board
VyStar Credit Union

Attachment – Appendix A

Cc: Board of Directors
Terry West, President/CEO
John Turpish, EVP/Chief Financial Officer
Rich Alfirevic, EVP/Chief Operations Officer
Daniel Mashevsky, Vice President Finance

VyStar Credit Union

OVERVIEW OF THE PROPOSED RULE RISK-BASED CAPITAL

Summary of Proposed Risk-Based Capital

The original proposed risk-based capital rule for credit unions was a complete change in methodology for calculating risk-based capital. The revised risk-based capital rule has eliminated much of the controversial attempts by NCUA to address more than credit risk in the same ruling. It eliminates addressing interest rate and market risk from the measures. It still does address credit risk, concentration risk, and elements of operation risk and liquidity risk. In general, the revised proposal lines up more closely with the banking approach to risk-based capital while reducing risk weightings for key products. Both proposed rules define how to calculate capital and assets for the capital ratio. The revised proposal treats some key components of capital more generously and it also treats the weighting of some assets more favorable, which will in general produce higher risk-based capital ratios. The risk weightings are scaled based on the concentration of the asset in the case of real estate loans, and the perceived risk in the case of member business loans. The risk weighting criteria for investments were completely changed in the revised proposal eliminating the average life criteria in favor of a market segment approach that benefits government entities over private entities. Most of the methodology seems to closely track Basel III that was proposed for community banks. However, many of the risk weightings for products such as consumer loans, secured and unsecured, and real estate loans are much more favorable to credit unions than they are in the bank proposal.

Methodology

This section will review the basic parts of the proposed risk-based capital. At the end of this section, VyStar's actual risk-based capital calculation will be presented and discussed.

The proposed risk-based capital ratio appears below. It is the ratio of the regulatory capital calculation divided by the risk-weighted asset total. All risk-based capital proposal talk is about the numerator (regulatory capital calculation) and the denominator (risk weighted total assets). In general, the revised proposal has given credit unions more credit in the numerator and less weight to assets in the denominator, which will result in more favorable risk-based capital ratios and larger capital cushions. The regulatory capital calculation is calculated as follows:

$$RBC = \frac{Regulatory\ Capital\ Calculation}{Risk\ Weighted\ Total\ Assets}$$

The proposed risk-based capital rule begins with the credit union's current net worth ratio. The proposed rule proposes five capital categories:

Table 1 Proposed Capital Categories

Net worth classified as	Net worth Ratio	Original Proposal Risk-Based Capital Ratio	Revised Proposal Risk-Based Capital Ratio	Subject to the following conditions(s)
Well Capitalized	7 % or above	10.5% or above	10% or above	Must pass both net worth ratio and risk-based capital ratio
Adequately Capitalized	6% to 6.99%	8% to 10.49%	8% to 9.99%	Must pass both net worth ratio and risk-based capital ratio
Under Capitalized	4% to 5.99%	Less than 8%	Less than 8%	Must pass both net worth ratio and risked-based capital ratio
Significantly Under Capitalized	2% to 3.99%	NA	NA	Or if undercapitalized at <5% net worth and fails to timely submit or materially implement an approved plan
Critically Undercapitalized	Less than 2%	NA	NA	None

Risk-weighted total assets are calculated by multiplying the applicable asset balance by the assigned risk-weighting. Table 2 below shows a simple risk-based capital example. This shows that each asset category has a different risk-weighting. The last column shows the result of multiplying the asset balance by the risk-weighting. In this example, cash is risk-weighted at zero, so the risk-weighted asset is zero and so on. The total asset balance before risk weighting is $415 million; the total of the risk-weighted assets is $285 million.

Table 2: Simple risk-based capital example 1

	Asset Balance	Risk-Weighting	Risk-Weighted Asset
Cash	5	0.00%	-
Mortgage Loans	100	50.00%	50
Consumer Loans	300	75.00%	225
Other Assets	10	100.00%	10
	415		285

If this credit union had a capital ratio of 11%, then given the regulatory capital calculation, this credit union has $45.65 million of capital. Dividing this regulatory capital by the risk-weighted assets produces a risk-based capital ratio of 16%. This would mean that this credit union has a risk-based capital buffer of 16% - 11% or 5%. They would be considered well capitalized and have excess risk-based capital of 5%.

Table 3: Simple risk-based capital example 2

	Asset Balance	Risk-Weighting	Risk-Weighted Asset
Cash	5	0.00%	-
Investment: Agency Obligations	25	20.00%	5
Investment: Agency and GSE residential MBS or ABS Structured Secrurities	25	20.00%	5
Investment: Revenue bonds issued by a state or political sub.	25	50.00%	13
Investment: Non-Agency ABS Structured Securities	25	100.00%	25
1st Lien Mortgages	10	50.00%	5
Consumer Loans	10	75.00%	8
Other Assets	10	100.00%	10
	135		70

Example 2 above shows the opposite case of example 1. Here, the credit union has few loans but they have a lot of investments. The risk-weighting for these types of investments ranges from 20% to 100% of the asset balance. The asset balances go from $135 million to a risk-weighted asset total of $70 million because of all the investments and their risk-weighting. The capital ratio for this credit union was 11%, with regulatory capital of $14.85 million. Dividing the regulatory capital by the risk-weighted assets produces a risk-based capital ratio of 21%. This credit union would be well capitalized under these proposed rules and have excess risk-based capital of 11%, 21%-10%.

These two examples, though extreme, demonstrate how the proposed risk-weighting of assets can materially affect the risk-based capital ratio and how risky assets can eat up capital with the proposed risk-weighting system.

The following tables show the proposed risk-based weightings by balance sheet category.

Table 4 shows the risk-weightings for cash and cash equivalents. Note that NCUA and FDIC issued investments have zero risk-weighting as do cash on hand while cash deposits and near-cash items have a 20% risk-weighting. These all seem reasonable. Please note that between the original and revised proposals, the categories within cash have changed dramatically as noted by NAs for different categories in table 4 between both proposals.

Table 4: Risk-Weightings for Cash & Cash Equivalents

	Original Proposal Risk Weight Percent	Revised Proposal Risk Weight
Cash		
Cash on Hand (Coin and Currency)	0.00%	0.00%
NCUA Share Insurance Capitalization Deposit	0.00%	0.00%
Total FDIC-Issued Guaranteed Notes	0.00%	NA
All Other U.S. Government Obligations	0.00%	NA
Uninsured Deposits in U.S. Federally Insured Deposit Institutions	20.00%	20.00%
Cash Equivalents	20.00%	NA
Balances due from Federal Home Loan Banks	NA	20.00%
Balances due from Federal Reserve Banks	NA	0.00%
Insured Deposits in U.S. Federally Insured Deposit Institutions	NA	0.00%

Table 5 shows the risk-weightings for investments. The original proposal assigned weights based on the length of the weighted average life of the investments regardless of whether they are fixed or variable and regardless of the credit quality. As indicated, this was eliminated because it was NCUA's attempt to address interest rate risk in this calculation, which they will now address separately. The revised proposal assigns risk weights based on issuer, NCUA/FDIC, Agency, municipality and the type of investment. Perhaps the harshest treatment is on corporate debt at 100% risk weighting. Although, the higher risk weighting does reflect the higher level of general risk in a corporate debt compared to agency debt. As suggested in our comments, it would seem more appropriate to assign risk weightings to corporate debt based upon tiers for the grade of the debt.

Table 5: Risk-Weightings for Investments

	Original Proposal Risk Weight Percent	Revised Proposal Risk Weight
Investments		
Total Investments ≤ 1 Year	20.00%	NA
Total Investments 1 to 3 years	50.00%	NA
Total Investments 3 to 5 years	75.00%	NA
Corporate Credit Union nonperpetual capital	100.00%	NA
Total Investments 5 to 10 years	150.00%	NA
Total Investments > 10 years	200.00%	NA
Corporate Credit Union perpetual capital	200.00%	NA
Direct unconditional claims on U.S. Government (Treasury and GNMA)	NA	0.00%
Debt instruments issued by NCUA and FDIC	NA	0.00%
FRB and CLF stock	NA	0.00%
Agency obligations	NA	20.00%
General obligation bonds issued by state or political subdivisions	NA	20.00%
Funds containing only 703 compliant investments subject to a 0-20% risk weight	NA	20.00%
FHLB stock	NA	20.00%
Agency and GSE residential MBS or ABS structured securities	NA	20.00%
Revenue bonds issued by state or political sub.	NA	50.00%
Non-agency residential MBS structured securities	NA	50.00%
Corporate non-perpetual capital (membership capital)	NA	100.00%
Non-agency ABS structured securities	NA	100.00%
Industrial development bonds	NA	100.00%
Mutual Funds - Part 703 compliant	NA	100.00%
Corporate debentures and commercial paper	NA	100.00%
Agency stripped MBS (interest only and principal only)	NA	100.00%
GSE equity exposure or preferred stock	NA	100.00%
Value of General Accounts Permanent Insurance	NA	100.00%
Corporate perpetual capital (paid-in capital)	NA	150.00%
Separate Account Life Insurance	NA	300.00%
Publicly traded equity investment (non CUSO)	NA	300.00%
Fair value of Mutual Funds – Non-703 compliant	NA	300.00%
Non-publicly traded equity investment (non CUSO)	NA	400.00%
Subordinated tranche of any MBS, ABS, or synthetic securities containing possibl	NA	1250.00%

Table 6: Risk-Weightings for Loans

	Original Proposal Risk Weight Percent	Revised Proposal Risk Weight
Loans		
MBLs Outstanding		
Threshold Amount 0 - 15%	100.00%	100.00%
Threshold Amount 15 - 25%	150.00%	100.00%
Threshold Amount 25-50%	200.00%	100.00%
Excess Amount Over 50%	200.00%	150.00%
Portions of commericial loans secured by compensating balances	NA	20.00%
Total First Lien RE Loans		
Threshold Amount 0 - 25%	50.00%	50.00%
Threshold Amount 25 - 35%	75.00%	50.00%
Excess Amount Over 35%	100.00%	75.00%
Total Junior Lien RE Loans		
Threshold Amount 0 - 10%	100.00%	100.00%
Threshold Amount 10 - 20%	125.00%	100.00%
Excess Amount over 20%	150.00%	150.00%
Total Consumer Loans		
Unsecured Loans Less than 60 Days Delinquent	75.00%	100.00%
Secured Loans Less than 60 Days Delinquent	75.00%	75.00%
Federally Guaranteed Student Loans Less than 60 Days Delinquent	0.00%	NA
Non-Federally Guaranteed Student Loans Less than 60 Days Delinquent	100.00%	NA
Share-secured loans Less than 90 Days Delinquent	NA	20.00%
Current secured loans Less than 90 Days Delinquent	NA	75.00%
Current unsecured loans Less than 90 Days Delinquent	NA	100.00%
Total Non-Current Loans		
Unsecured Loans 60 or More Days Delinquent	150.00%	NA
Secured Loans 60 or More Days Delinquest	150.00%	NA
Federally Guaranteed Student Loans 60 or More Days Delinquent	150.00%	NA
Non-Federally Guaranteed Student Loans 60 or More Days Delinquent	150.00%	NA
Non-current commercial loans (more than 90 days delinquest or restructured)	NA	150.00%
Non-current First Lien RE Loans (more than 90 days delinquest or restructured)	NA	100.00%
Non-current Junior Lien RE Loans (more than 90 days delinquest or restructured)	NA	150.00%
Non-current consumer loans (more than 90 days delinquest or restructured)	NA	150.00%

Table 6 shows the risk-weightings for all of the different loan types. These weightings incorporate different weights for the underlying collateral type such as real estate and consumer loans, and the concentration in certain types of loans such as real estate and member business loans. The risk weightings also increase for junior liens based on the concentration. Many of the risk weights were revised downward for performing loans. The threshold for higher risk-weightings for delinquent loans was raised from 60 days delinquent to 90 days delinquent. The 150% risk weighting was not changed and it seems harsh considering that these loans already have reserves in the loan loss calculations set aside and this will require 50% additional capital as a safeguard. Most of these weightings seem reasonable. However, as noted in the comments, there is one area of concern regarding capital required for delinquent loans. They already have reserves set aside and the fact that FASB is expected to move to require all financial institutions to move to expected loss, this would result in over reserving for losses when combined with the proposed risk-based capital.

Table 7: Risk-Weightings for All Other Assets

	Risk Weight Percent	Revised Proposal Risk Weight
Other Assets		
Loans to CUSO	**100.00%**	**100.00%**
Investment in CUSO	**250.00%**	**150.00%**
Mortgage Servicing Assets	**250.00%**	**250.00%**
NCUSIF deposit	NA	-100.00%
Other intangible assets	NA	-100.00%
Goodwill	NA	-100.00%
Loans Held for Sale	100.00%	100.00%
Foreclosed and Reposessed Assets	100.00%	100.00%
Land and Building	100.00%	100.00%
Other Fixed Assets	100.00%	100.00%
Accrued Interest on Loans	100.00%	100.00%
Accrued Interest on Investments	100.00%	100.00%
All Other Assets not Otherwise Specifically Assigned a Risk Weight	**100.00%**	**100.00%**

Table 7 shows the risk-weightings for all other assets. All of the ones that require 100% risk weighting are okay and fairly normal in this risk-based capital world. The revised proposal did reduce the risk weighting for Investment in CUSO but not for mortgage servicing rights. There are a few items that have negative 100% risk weightings and these are items that are now being removed from the risk weighting altogether. In general, this is an improvement but as noted in our comments, they still give too much risk weight to mortgage servicing rights.

Finally, table 8 shows the risk-weightings for off-balance sheet items. This area was significantly expanded in the revised proposal to include any assets sold with recourse and to include unfunded commitments. While at face value these additions may appear excessive, they are actually reasonable and they more accurately envelope the concept of risk that does need to be captured and measured. VyStar originally commented on the absence of unused lines of credit.

Table 8: Risk-Weightings for Off-Balance Sheet Items

	Risk Weight Percent	Revised Proposal Risk Weight
Off-Balance Sheet Contingencies		
Unused MBL Commitments	100.00%	NA
Loans Sold with Recourse	75.00%	NA
Commercial loans transferred with recourse	NA	100.00%
1st lien residential RE loans transferred with recourse	NA	50.00%
Other RE transferred with recourse	NA	100.00%
All other secured consumer loans transferred with recourse	NA	75.00%
All other unsecured consumer loans transferred with recourse	NA	100.00%
Loans transferred to FHLB under the Mortgage Partnership Finance Program	NA	50.00%
Unfunded commercial loan commitments	NA	100.00%
Unfunded 1st lien RE loan commitments	NA	50.00%
Unfunded other RE loan commitments	NA	100.00%
Unfunded secured consumer loans	NA	75.00%
Unfunded unsecured consumer loans	NA	100.00%
Total Unfunded Commitments for Non-Business Loans	**75.00%**	**NA**

VyStar's Risked-Based Capital Calculation under the proposal

The two tables below show the impact to VyStar under the proposed risk-based capital guidelines. Table 9 shows that as of December 31, 2014, VyStar would have risk-based capital of $491.316 million.

Table 10 shows the application of the risk-weighting to calculate the denominator, or the amount of VyStar's risk weighted assets. This table is more detailed and comprehensive than the series of tables shown above. The most important outcome of this table is the bottom line, which shows that VyStar's risk-weighted assets are $2.964 billion, which is around 56% of the year-end total assets of $5.266 billion. Because the risk-weighted assets are less than the actual year-end assets, VyStar's risk-based capital is well above its year-end regulatory capital ratio. The year-end capital ratio was 9.48% and risk-based capital is 16.57% under NCUA's new Risk Based Capital Proposal. This compares to a risk-based capital level of 13.89 under the original Risk Based Capital Proposal. Therefore, under these proposed risk-based capital guidelines, VyStar would continue to be well capitalized.

Note that these proposed risk-based capital guidelines will materially affect financial decisions at VyStar and all credit unions. Risk-based capital will now be part of the equation in long-term strategies of growing the balance sheet, investment decisions and ultimately, product profitability.

Table 9: VyStar's Calculated Regulatory Capital

Equity Included in Numerator	$488,876,657		$488,876,657
Undivided earnings	$392,270,776	100%	$392,270,776
Regular reserves	$96,605,882	100%	$96,605,882
Appropriations for non-conforming investments	$0	100%	$0
Other reserves	$0	100%	$0
Equity acquired in merger	$0	100%	$0
Net income	$0	100%	$0
Other Additions to Numerator			$41,824,278
ALLL	$41,824,278	100%	$41,824,278
Secondary capital accounts included in net worth (as defined in Part 702.2)	$0	100%	$0
Section 208 Assistance included in net worth (as defined in Part 702.2)	$0	100%	$0
Other Deductions from Numerator			-$39,384,824
NCUSIF capitalization deposit	$39,384,824	-100%	-$39,384,824
Goodwill [1]	$0	-100%	$0
Other intangible assets (excluding mortgage servicing assets) [1]	$0	-100%	$0
[1] See rule for special handling of goodwill and other intangibles related to supervisory mergers	0%		
Total Risk-Based Capital Ratio Numerator			*$491,316,111*

Table 10: Risked-Weighted Asset Calculations and Total

APPENDIX A

Cash Items			$5,392,009
Cash, currency, coin	$53,974,210	0%	$0
Balances due from Federal Reserve Banks	$213,805,757	0%	$0
Insured deposits in U.S. federally insured depository institutions	$135,586	0%	$0
Uninsured deposits in U.S. federally insured depository institutions [2]	$25,744,450	20%	$5,148,890
Balances due from Federal Home Loan Banks	$1,215,597	20%	$243,119
[2] Includes balances due from privately-insured credit unions	0		
Investments (in order of ascending risk weight)			$267,855,554
Direct unconditional claims on the U.S. government	$78,514,829	0%	$0
Debt instruments issued by the NCUA and FDIC	$166,003,407	0%	$0
FRB and CLF stock	$0	0%	$0
Agency obligations	$255,316,243	20%	$51,063,249
General obligation bonds issued by state or political subdivisions	$0	20%	$0
FHLB stock	$28,089,500	20%	$5,617,900
Funds containing only 703 compliant investments subject to a 0% - 20% risk weight	$0	20%	$0
Agency and GSE residential MBS or ABS structured securities (excluding IOPOs) [3]	$614,486,544	20%	$122,897,309
Revenue bonds issued by state or political subdivisions [3]	$0	50%	$0
Non-agency residential MBS structured securities [3]	$0	50%	$0
Corporate non-perpetual capital (Membership capital)	$0	100%	$0
Non-agency ABS structured securities [3]	$0	100%	$0
Industrial development bonds	$0	100%	$0
Agency-stripped MBS (interest only and principal only)	$0	100%	$0
Mutual funds – Part 703 compliant	$0	100%	$0
(optional look-through approach if used for line above)	$0	100%	$0
Corporate debentures and commercial paper	$88,277,096	100%	$88,277,096
General account permanent insurance	$0	100%	$0
GSE equity exposure or preferred stock	$0	100%	$0
Corporate perpetual capital (Paid-In Capital)	$0	150%	$0
Separate account insurance	$0	300%	$0
(optional look-through approach if used for line above)	$0	300%	$0
Publicly traded equity investment (non CUSO)	$0	300%	$0
Fair value of mutual funds not compliant with Part 703	$0	300%	$0
(optional look-through approach if used for line above)	$0	300%	$0
Non-publicly traded equity investment (non CUSO)	$0	400%	$0
Subordinated tranche of any investment	$0	1250%	$0
(optional gross-up approach if used for line above)	$0	1250%	$0
[3] Non-subordinated	$0		

Loans (by general loan type)				$2,520,736,694
Government-guaranteed portions of outstanding loans (net from all loans below)	$0	20%		$0
Share-secured loans	$25,320,705	20%		$5,064,141
Current secured consumer loans [4]	$1,032,680,671	75%		$774,510,503
Current unsecured consumer loans	$417,067,882	100%		$417,067,882
Non-current consumer loans	$9,556,696	150%		$14,335,043
Current 1st lien residential loans comprising less than 35% of assets [5]	$1,572,553,841	50%		$786,276,921
Current 1st lien residential loans comprising more than 35% of assets [5]	$0	75%		$0
Non-current 1st lien residential real estate loans [5]	$127,627,619	100%		$127,627,619
Current junior real estate loans comprising more than 20% of assets [5]	$0	150%		$0
Current junior real estate loans comprising less than 20% of assets [5]	$206,575,397	100%		$206,575,397
Non-current junior real estate loans [5]	$11,990,064	150%		$17,985,096
Portions of commercial loans secured by compensating balances	$0	100%		$0
Current commercial loans compising less than 50% of assets [6]	$140,892,140	100%		$140,892,140
Current commercial loans comprising more than 50% of assets [6]	$0	150%		$0
Non-current commercial loans [6]	$20,267,969	150%		$30,401,954
[4] Includes a commercial purpose loan secured by a vehicle generally manufactured for personal use	0			
[5] Includes 1- to 4-family non-owner occupied real estate loans which would be considered resident	0			
[6] Excludes certain 1- to 4-family non-owner occupied real estate loans and certain personal use veh	0			
Other Assets				$101,207,614
Loans to CUSOs (Unconsolidated CUSOs only)	$0	100%		$0
Equity investments in CUSOs (Unconsolidated CUSOs only)	$3,987,389	150%		$5,981,084
Mortgage servicing assets (carrying value)	$1,225,907	250%		$3,064,769
NCUSIF deposit	$39,384,824	-100%		-$39,384,824
Goodwill	$0	-100%		$0
Other intangilble assets	$0	-100%		$0
All other assets	$131,546,586	100%		$131,546,586
Total Asset Check (Compare the amount on this line to your total assets to ensure accuracy)	$5,266,240,908			
Off-Balance Sheet Items				$69,014,835
		credit conversion	risk weight	
Commercial loans transferred with recourse	$0	100%	100%	$0
1st lien residential real estate loans transferred with recourse	$0	100%	50%	$0
Other real estate transferred with recourse	$0	100%	100%	$0
All other secured consumer loans transferred with recourse	$0	100%	75%	$0
All other unsecured consumer loans transferred with recourse	$0	100%	100%	$0
Loans transferred to FHLB under the Mortgage Partnership Finance Program	$0	20%	50%	$0
Unfunded commercial loan commitments	$0	50%	100%	$0
Unfunded 1st lien residential real estate loan commitments	$140,971,048	10%	50%	$7,048,552
Unfunded other real estate loan commitments	$0	10%	100%	$0
Unfunded secured consumer loans	$74,632,267	10%	75%	$5,597,420
Unfunded unsecured consumer loans	$563,688,624	10%	100%	$56,368,862
Derivatives				$0
OTC interest rate derivative contract exposure [7]	$0			$0
Cleared transactions for interest rate derivatives [7]	$0			$0
[7] See rule for calculation methodology	0			
Total Risk-Based Capital Ratio Denominator				$2,964,206,706